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JUL 11 1997

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

July 11, 1997

Mr. William F. Caton  
Secretary  
Federal Communications Commission  
Room 222  
1919 M Street, NW  
Washington, D.C. 20554

DOCKET FILE COPY ORIGINAL

**Re: Access Charge Reform, CC Docket No. 96-262; Price Cap Performance  
Review for Local Exchange Carriers, CC Docket No. 94-1; Transport Rate  
Structure and Pricing, CC Docket No. 92-213, Further Notice of Proposed  
Rulemaking**

Dear Mr. Caton:

Enclosed herewith for filing are the original and sixteen (16) copies of MCI Telecommunications Corporation's Reply Comments regarding the above-captioned matter. Pursuant to the Commission's request, MCI is also submitting a 3.5 inch diskette using MS DOS 5.0 and WordPerfect 5.1 software, containing our enclosed comments.

Please acknowledge receipt by affixing an appropriate notation on the copy of the MCI Comments furnished for such purpose and remit same to the bearer.

Sincerely yours,



Bradley Stillman

Enclosure  
BCS

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554**

<b>In the Matter of</b>	)	
	)	
<b>Access Charge Reform</b>	)	<b>CC Docket No. 96-262</b>
	)	
<b>Price Cap Performance Review for Local Exchange Carriers</b>	)	<b>CC Docket No. 94-1</b> ✓
	)	
<b>Transport Rate Structure and Pricing</b>	)	<b>CC Docket No. 92-213</b>
	)	
<b>Usage of the Public Switched Network By Information Service and Internet Access Providers</b>	)	<b>CC Docket 96-263</b>
	)	

**MCI REPLY COMMENTS**

**I. Introduction**

MCI hereby submits its reply comments in the above referenced docket.<sup>1</sup>

Without exception, parties filing comments in this proceeding opposed the imposition of a Presubscribed Interexchange Carrier Charge (PICC) on special access lines. MCI urges the Commission to abandon this proposal.

In its initial comments, MCI supported the Commission's proposal to use a modified "Big Three Expense" allocator to apportion GSF costs between billing and

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<sup>1</sup> In the Matter of Access Charge Reform, CC Docket No. 96-262; Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1; Transport Rate Structure and Pricing, CC Docket No. 91-213, Usage of the Public Switched Network by Information Service and Internet Access Providers, CC Docket No. 96-263, Further Notice of Proposed Rulemaking, FCC 96-488, released December 24, 1996 (Further Notice).

collection and the access categories. The LECs, however, generally oppose any modification of the Part 69 rules governing GSF costs. They argue that modification of the Part 69 rules is unnecessary because IXC's may take back billing and collection from the LECs. Alternatively, several LECs argue that the Commission should defer action on this issue to a proceeding that would examine the Part 69 rules on a comprehensive basis. These arguments are without merit. The Commission should adopt its proposal to reassign GSF costs using the modified "Big Three Expense" allocator.

## **II. GSF Costs Should Be Reassigned**

The LECs advance a variety of arguments in support of their position that the Commission should not modify the Part 69 rules at this time. BellSouth, for example, argues that there is no evidence that, in total, the Part 69 rules do not allocate a reasonable share of interstate costs to billing and collection.<sup>2</sup> BellSouth is unable, however, to cite any aspects of the Part 69 rules that compensate for the underallocation of GSF costs to billing and collection.

Several LECs argue that the Commission should not reassign GSF costs to billing and collection because, they claim, AT&T and other IXC's are in the process of taking back billing and collection. Bell Atlantic and NYNEX, for example, argue that "the amount of general support computer costs that are associated with billing and

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<sup>2</sup> BellSouth Comments at 5-6.

collection are not significant, and are likely to continue to decline in the future.”<sup>3</sup>

However, ARMIS data shows that the seven RBOCs’ 1996 billing and collection revenues were \$796.4 million,<sup>4</sup> down only slightly from the 1995 figure of \$809.9 million. It is clear that the LECs continue to maintain active billing and collection operations that use general purpose computers, land, buildings, and other general support facilities. The Commission should ensure that the costs of these facilities are assigned to the billing and collection category.

More importantly, the potential takeback of billing and collection only provides added justification for reassigning GSF costs to billing and collection. As MCI discussed in its initial comments, misassigned GSF costs were reflected in the price cap LECs’ PCIs at the inception of price cap regulation.<sup>5</sup> Absent Commission action, the LECs’ PCIs will continue to reflect these misallocated costs even if IXC’s do, in fact, take back billing and collection. In order to prevent the LECs from charging inflated access rates indefinitely, the Commission should require the LECs to reassign GSF costs and make immediate PCI adjustments.

BellSouth and SWBT argue that the Commission should defer action on this issue until it has completed separations reform and has had the opportunity to reevaluate the Part 69 rules on a comprehensive basis.<sup>6</sup> The passage of the

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<sup>3</sup> Bell Atlantic/NYNEX Comments at 6.

<sup>4</sup> Preliminary Statistics of the Common Carriers, Table 2.9, Line No. 184.

<sup>5</sup> MCI Comments at 11-12.

<sup>6</sup> BellSouth Comments at 5-6; SBC Comments at 6.

Telecommunications Act of 1996, however, requires immediate revision of the Part 69 rules governing billing and collection. New Section 254(k) of the Act prohibits cross-subsidy of billing and collection, a potentially competitive service, with interstate access revenues. Moreover, the proposed rule change corrects a specific, clearly identifiable cost misallocation. It affects only the apportionment of costs between billing and collection and the access categories, and will therefore have only minimal impact on the distribution of costs among the access categories. The limited scope of the proposed rule change ensures that there is little risk that the new rule will skew the balance of comprehensive allocations or result in unintended consequences, as SBC fears.<sup>7</sup> The Commission has, in the past, acted to correct specific cost misallocations without undertaking comprehensive revision of the Part 69 rules.<sup>8</sup>

MCI agrees with U S West<sup>9</sup> that the Commission should make any decision on GSF expense allocation at the same time that it addresses MCI's petition for reconsideration of the OB&C Order.<sup>10</sup> The Commission should reinstate the preexisting Part 36 rule governing the jurisdictional separation of OB&C costs, and also modify the

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<sup>7</sup> See SBC Comments at 6.

<sup>8</sup> See In the Matter of Amendment of the Part 69 Allocation of General Support Facility Costs, Report and Order, 8 FCC Rcd 3697, 3700-3701 (GSF Allocation Order).

<sup>9</sup> US West Comments at 5.

<sup>10</sup> In the Matter of Amendment of Part 36 of the Commission's Rules and Establishment of a Joint Board, Report and Order, 12 FCC Rcd 2679 (OB&C Order).

Part 69 rules governing the allocation of GSF expenses between billing and collection and the access categories.

**III. The Modified Big Three Expense Allocator Should Be Applied to All GSF Investment**

In the Further Notice, the Commission proposes two options for reassigning GSF costs. The first option requires special studies to determine the amount of computer investment attributable to billing and collection. The second option uses a modified "Big Three Expense" allocator to apportion GSF investment among billing and collection and the access service categories. In its initial comments, MCI supported the second option.

The LECs also support the use of the second option, should the Commission decide to modify the Part 69 rules. They suggest, however, that the modified Big Three Expense allocator should be used only to apportion Account 2124 general purpose computer investment. However, many of the investments in GSF accounts other than Account 2124 are used in the provision of billing and collection services. If the Commission does not adopt the proposal in the Further Notice, it should instead require the LECs to, at a minimum, apportion GSF costs in Account 2111, Land, Account 2121, Buildings, and Account 2123, Office Equipment, between billing and collection and the access categories using the modified Big Three Expense allocator.

#### **IV. Reallocation of GSF Costs Requires An Exogenous Cost Change**

Ameritech argues that the reassignment of GSF costs to billing and collection is a "non-economic" cost change that should not be given exogenous index treatment.<sup>11</sup> Ameritech attempts to draw an analogy between the reallocation of GSF costs and the introduction of accrual accounting for OPEBs, for which the Commission denied exogenous cost treatment.

The proposed rule change qualifies for exogenous treatment. It does not, as in the case of OPEBs, simply alter the timing of the recognition of costs on the LECs' books.<sup>12</sup> Instead, the proposed rule change recognizes that certain costs currently assigned to the access categories do not, in fact, represent investments or expenses incurred in providing access services. Under price cap regulation, simply reassigning costs from the access categories to billing and collection is not sufficient to ensure that access rates are reasonable. Because current price cap rates reflect the misassigned costs, an exogenous cost reduction is required to ensure that the price cap formula does not result in unreasonably high rates.<sup>13</sup>

That a reallocation of costs among service categories constitutes an economic cost change is confirmed by the fact that the Commission requires exogenous cost

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<sup>11</sup> Ameritech Comments at 4-5.

<sup>12</sup> See In the Matter of Price Cap Performance Review for Local Exchange Carriers, First Report and Order, CC Docket No. 94-1, April 7, 1995, at ¶307.

<sup>13</sup> See In the Matter of Policy and Rules Concerning Rates for Dominant Carriers, Second Report and Order, 5 FCC Rcd 6786, 6807.

treatment of the reallocation of investment from nonregulated to regulated. The reassignment of costs from the access categories to billing and collection, a detariffed service, should similarly be accorded exogenous treatment. Moreover, in the GSF Allocation Order, the Commission concluded that it was appropriate to allow price cap LECs to treat as exogenous the reallocation of GSF costs among Part 69 categories.<sup>14</sup> The Commission reached this conclusion under Section 61.45(d) of its rules, pursuant to which it may permit or require exogenous treatment.<sup>15</sup>

## V. Conclusion

MCI requests that the Commission modify its Part 69 rules in a manner consistent with the above comments.

Respectfully submitted,



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July 11, 1997

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<sup>14</sup> GSF Allocation Order, 8 FCC Rcd at 3700-3701.

<sup>15</sup> Id. at 3701 n.54.



## **CERTIFICATE OF SERVICE**

I, John E. Ferguson III, do hereby certify that copies of the foregoing Reply Comments of MCI in the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, and Usage of the Public Switched Network By Information Service and Internet Access Providers were sent, on this 11th day of July, 1997, via first-class mail, postage pre-paid, to the following:

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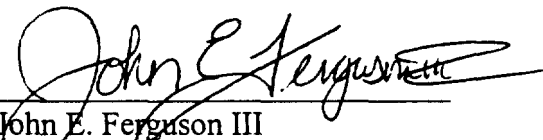
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